CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

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37TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA MARIA FAIRPARK
SANTA MARIA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-037
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

37TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA MARIA FAIRPARK
SANTA MARIA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Harvey Hunter, CPA	Auditor
Anthony DelMastro	Auditor

AUDIT REPORT NUMBER

#08-037

37TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA MARIA FAIRPARK
SANTA MARIA, CALIFORNIA

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Ms. Lorena C. Abeytia, President
Board of Directors
37th DAA, Santa Maria Fairpark
937 Thornburg Street
Santa Maria, California 93458

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 37th District Agricultural Association (DAA), Santa Maria Fairpark, Santa Maria, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 37th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 37th DAA, Santa Maria Fairpark, as of December 31, 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In 2006, property records were not properly updated for auditing the year ending December 31, 2006. The Closed Project Status Reports obtained from California Construction Authority (CCA) revealed sixteen projects totaling approximately $571,000 that were not recorded in the accounting records by the Fair. Furthermore, we were unable to establish whether or not these items met the capitalization criteria, and the Fair was unable to provide any documentation to make an appropriate determination. As such, we were unable to satisfy ourselves to the amount stated in the accompanying financial statements for Account 192, Buildings and Improvements – Net, (stated as $1,564,797) at December 31, 2006.

In our opinion, except for the effects of any adjustments, if necessary, that might be made to Account #192-Buildings and Improvements, and its related contra asset account, Account #192.1, Accumulated Depreciation-Buildings and Improvements, the financial statements referred to above present fairly, in all material respects, the financial position of the 37th District Agricultural Association, Santa Maria Fairpark, as of December 31, 2006, and the results of its operations and changes in net resources and cash flows-regulatory basis for the years then ended.

The 37th DAA**,** Santa Maria Fairpark has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-037, on the 37th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 37th DAA as appropriate. This additional report, however, is <u>not</u> a required part of the basic financial statements.

For Ron Shackelford, CPA
Chief, Audit Office

September 26, 2008

37TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA MARIA FAIRPARK
SANTA MARIA, CALIFORNIA

STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2007 and 2006

	Account Number	2007	2006
ASSETS			
Cash in Bank	111 - 119	$ 1,681,494	$ 1,495,917
Accounts Receivable, Net	131-133	54,201	30,230
Deferred Charges	143	-	696
Construction in Progress	190	64,526	42,983
Land	191	98,142	98,142
Buildings and Improvements, Net	192	2,246,534	1,564,797
Equipment, Net	193	157,382	144,659
Leasehold Improvements, Net	194	1,347,476	-
TOTAL ASSETS		**5,649,755**	**3,377,424**
LIABILITIES AND NET RESOURCES			
Liabilities and Other Credits			
Accounts Payable & Other Payable	212	29,033	35,541
Current Portion of Long Term Debt	212.5	44,234	31,220
Taxes Payable	221 - 226	1,012	946
Deferred Income	228	11,225	50,001
Guaranteed Deposits	241	43,150	31,965
Compensated Absences Liability	245	81,347	67,118
Long Term Debt	250	900,728	35,854
Total Liabilities and Other Credits		**1,110,729**	**252,645**
Net Resources			
Reserve for Junior Livestock Auction	251	122,646	97,688
Net Resources - Operations	291	1,403,048	1,243,584
Net Resources - Capital Assets	291.1	3,013,332	1,783,506
Total Net Resources Available		**4,539,026**	**3,124,778**
TOTAL LIABILITIES AND NET RESOURCES		**$ 5,649,755**	**$ 3,377,424**

37TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA MARIA FAIRPARK
SANTA MARIA, CALIFORNIA

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2007 and 2006

	Account Number	2007	2006
REVENUE			
State Apportionments	312	$ 105,000	$ 105,000
Capital Project Reimbursement Funds	318	1,234,998	39,122
Other Capital Project Funds	319	24,501	44,387
Admissions	410	321,433	301,413
Commercial Space	415	76,040	99,950
Carnival	421	236,532	196,153
Food Concessions	422	108,741	81,845
Exhibits	430	42,480	50,564
Horse Show Revenue	440	905	1,084
Satellite Wagering Revenue	450	340,221	331,946
Attractions - Fairtime	460	22,325	18,665
Miscellaneous Fair	470	735,930	580,287
JLA - Revenue	476	88,694	77,965
Interim Revenue	480	478,810	420,721
Prior Year Adjustment	490	7,604	2,741
Other Revenue	495	92,909	55,574
Total Revenue		**3,917,123**	**2,407,417**
EXPENSES			
Administration	500	500,365	469,974
Maintenance and Operations	520	365,637	362,921
Publicity	540	92,059	72,293
Attendance	560	141,690	123,003
Miscellaneous Fair	570	189,959	156,416
JLA - Expense	576	63,737	88,031
Premiums	580	13,044	19,397
Exhibits	630	85,774	104,644
Great Western Livestock Show	640	200	498
Satellite Wagering Expense	650	294,724	311,944
Fair Entertainment Expense	660	395,657	351,725
Equipment Expense	723	91	18,574
Prior Year Adjustments	800	171,150	70,192
Cash Over/Short from Ticket Sales	850	2,663	913
Depreciation Expense	900	186,125	116,081
Non-Capitalized Millennium Flex	945	-	33,957
Total Expenses		**2,502,875**	**2,300,563**
RESOURCES			
Net Change - Income / (Loss)		1,414,248	106,854
Resources Available, January 1		3,124,778	3,017,924
Resources Available, December 31		**$ 4,539,026**	**$ 3,124,778**

37TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA MARIA FAIRPARK
SANTA MARIA, CALIFORNIA

STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue	$ 1,414,248	$ 106,854
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(23,971)	17,086
(Increase) Decrease in Deferred Charges	696	5,626
Increase (Decrease) in Accounts Payable & Other	(6,508)	(1,357)
Increase (Decrease) in Current Portion of Long-Term Liability	13,014	1,221
Increase (Decrease) in Payroll Liabilities	65	(1,688)
Increase (Decrease) in Compensated Absence Liability	14,229	8,807
Increase (Decrease) in Guarantee Deposits	11,185	(35,035)
Increase (Decrease) in Deferred Income	(38,776)	30,500
Total Adjustments	(30,066)	25,160
Net Cash Provided (Used) by Operating Activities	**1,384,182**	**132,014**
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction in Progress	(21,543)	(36,315)
(Increase) Decrease in Leasehold Improvements	(1,347,476)	-
(Increase) Decrease in Buildings & Improvements	(681,737)	145,523
(Increase) Decrease in Equipment	(12,723)	(7,114)
Net Cash Provided (Used) by Investing Activities	**(2,063,479)**	**102,094**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	864,874	(34,387)
Net Cash Provided (Used) by Financing Activities	**864,874**	**(34,387)**
NET INCREASE (DECREASE) IN CASH	**185,577**	**199,721**
Cash at Beginning of Year	1,495,917	1,296,196
CASH AT END OF YEAR	**$ 1,681,494**	**$ 1,495,917**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 37th District Agricultural Association (DAA) was formed in March 1891, for the purpose of sponsoring, managing, and conducting the Santa Barbara County Fair each year in Santa Maria, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA’s to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to $40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than $5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.25% on all of the DAA’s sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization.

The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	2007	2006
Change Fund	$ 1,600	$ 1,200
Cash in Bank - Operating	4,497	31,953
Cash in Bank - Premium	1,990	292
Cash in Bank - Payroll	6,421	2,987
Cash in Bank – Time Deposits	1,542,147	1,360,427
Cash in Bank - JLA	124,839	99,058
Total Cash and Cash Equivalents	$ 1,681,494	$ 1,495,417

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	2007	2006
Accounts Receivable	$ 45,394	$ 29,077
Accounts Receivable - UI	9,240	3,758
Allowance for Doubtful Accounts	(433)	(2,605)
Accounts Receivable - Net	$ 54,201	$ 30,230

NOTE 4 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	2007	2006
Building & Improvements	$4,239,412	$3,312,780
Less: Accumulated Depreciation	(1,992,878)	(1,747,983)
Building & Improvements - Net	$2,246,534	$1,564,797

Equipment	$ 403,123	$ 326,461
Less: Accumulated Depreciation	(245,741)	(181,802)
Equipment - Net	$ 157,382	$ 144,659
Leasehold Improvements	$1,393,941	-
Less: Accumulated Depreciation	(46,465)	-
Leasehold Improvements - Net	$1,347,476	-

NOTE 5 **LONG-TERM DEBT**

The 37th DAA entered into four long-term loan agreements and one capital lease agreement. The first four long-term loan agreements are with the California Construction Authority (CCA), pertaining to the financing of equipment acquired by the Fair. The Capital Lease Agreement is with Great America Leasing Corporation for a copier. The terms of the agreements are as follows:

CCA Photovoltaic Loan:

Loan Amount	$ 787,127
First Payment Date	July 1, 2008
Payment Amount	$ 4,674
Duration of Loan	189 Months
Interest Rate (Blended Rate)	.894447%
Total Outstanding at 12/31/07	$ 787,127
Current Portion at 12/31/07	$ 23,493
Long-Term Portion at 12/31/07	$ 763,634

CCA Tractor Loan:

Loan Amount	$ 34,660
First Payment Date	April 1, 2003
Payment Amount	$654
Duration of Loan	60 Months
Interest Rate	5.0%
Total Outstanding at 12/31/07	$ 2,011
Current Portion at 12/31/07	$ 2,011
Long-Term Portion at 12/31/07	$ -

CCA Livestock Pens Loan:

Loan Amount	$ 32,366
First Payment Date	July 1, 2003
Payment Amount	$ 611
Duration of Loan	60 Months
Interest Rate	5%
Total Outstanding at 12/31/07	$ 3,612
Current Portion at 12/31/07	$ 3,612
Long-Term Portion at 12/31/07	$ -

CCA Lighting Project Loan:

Loan Amount	$ 143,495
First Payment Date	November 5, 2007
Payment Amount	$1,557
Duration of Loan	120 Months
Interest Rate	5.5%
Total Outstanding at 12/31/07	$ 141,691
Current Portion at 12/31/07	$ 11,173
Long-Term Portion at 12/31/07	$ 130,518

Great America Leasing Corp. – Phone Lease:

Loan Amount	$ 19,727
First Payment Date	September 2005
Payment Amount	$ 458
Duration of Loan	60 Months
Interest Rate	8%
Total Outstanding at 12/31/07	$ 10,521
Current Portion at 12/31/07	$ 3,945
Long-Term Portion at 12/31/07	$ 6,576

NOTE 6 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7 **DEFERRED INCOME**

Deferred income totaling $11,225 at December 31, 2007 consist of 2008 facility rental revenue received in 2007.

NOTE 8 **RECLASSIFICAITON**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

37TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA MARIA FAIRPARK
SANTA MARIA, CALIFORNIA

REPORT DISTRIBUTION

Number	Recipient
1	President, 37th DAA Board of Directors
1	Chief Executive Officer, 37th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

37TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA MARIA FAIRPARK
SANTA MARIA, CALIFORNIA

MANAGEMENT REPORT #08-037

YEAR ENDED DECEMBER 31, 2007

37TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA MARIA FAIRPARK
SANTA MARIA, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
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MANAGEMENT REPORT NUMBER
#08-037

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Ms. Lorena C. Abeytia, President
Board of Directors
37th DAA, Santa Maria Fairpark
937 Thornburg Street
Santa Maria, California 93458

In planning and performing our audit of the financial statements of the 37th District Agricultural Association (DAA), Santa Maria Fairpark, Santa Maria, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Santa Maria Fairpark with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 37th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 37th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 37th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 37th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 37th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 37th DAA and compliance with state laws and regulations, we identified six areas with reportable conditions that are considered weaknesses in the Fair's operations: inappropriate expenditures, standard agreements, sponsorship revenues, opportunity purchases, temporary employees, and compensated leave liability. We have provided 14 recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 37th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

INAPPROPRIATE EXPENDITURES

The Fair used State funds to pay for a 2007 catered social event that included Fair staff, board members and their spouses totaling $1,542. Any use of State funds for food and beverages other than business meals reimbursed in accordance with the Department of Personnel Administration (DPA) rules and regulations will be questioned as to necessity and benefit to the State. Based on the lack of evidence suggesting that the dinner was a necessary business expense, it appears that the social dinner did not qualify as business meals and therefore can be reasonably deemed unnecessary, inappropriate, and of no benefit to the State. This was a prior year finding.

In addition, the Fair spent $354 for business meals for fair staff and two other state agency employees. According to the Accounting Procedures Manual, 2.86, a claim must justify providing food or the benefit expected to accrue to the fair by entertaining State officials, patrons, or others at a restaurant, hospitality booth, or elsewhere. Simply stating the topics discussed does not satisfy the benefit to the State. Secondly, such meals may be considered a gift of public funds to another municipal and deemed inappropriate and of no benefit to the State.

Lastly, the Fair purchased gift cards and gift baskets for Fair staff/board totaling $613. Such gifts are deemed unnecessary, and of no benefit to the State and are considered an inappropriate use of state funds. According to the State Constitution, Article XVI, section 6, "The legislature shall have no power to make any gift or authorize the making of any gift, of any public money or thing of value to any individual, municipal or other corporation."

Recommendation

1. *The Fair should be aware of correspondence on file from the State Controller's Office stating that purchases of food and beverages, other than business meals reimbursed in accordance with the Department of Personnel Administration (DPA) rules and regulations, will be questioned as to necessity and benefit to the State. An agency must justify its reasons for such purchases.*
2. *The Fair should improve its accounting over food and beverage expenditures by ensuring that written justification as to the benefit to the State is maintained. This supporting documentation will help the Fair in justifying the business purpose of providing such food and beverages during the event by specifying the benefit expected to accrue to the Fair.*
3. *The Fair should comply with the State Constitution, Article XVI, section 6, and refrain from giving any thing of value to any individual, municipal, or other corporation as it provides no benefit to the State and is inappropriate.*

STANDARD AGREEMENTS

An examination of standard agreements revealed the following exceptions:

a. There was no evidence the Fair obtained bids for three personal services contracts in excess of $5,000 when required. These contracts were for services related to marketing, fair admissions and ticketing, as well as media and advertising. The values of these three contracts were $25,000, $14,000, and $50,000, respectively. According to the Fairs & Expositions (F&E) Contracts Manual, contracts over $5,000 and not otherwise exempt from bidding must be either formally bid or awarded using the Alternative Bid Process.

b. The Fair did not always prepare a standard agreement for businesses/individuals who received an IRS Form 1099-MISC, Miscellaneous Income, for services rendered. The IRS Form 1099-MISC is issued to recipients of non-employee compensation of $600 or more from the Fair during the year. According to the APM, fairs are required to enter into a contract for all services performed by independent contractors.

c. The Fair did not submit three contracts over $75,000 to F&E for approval. According to the F&E Contracts Manual, contracts over $75,000 are required to be submitted to F&E for approval.

d. The Fair did not prepare a Standard 215 Agreement Summary for each Standard 213 Agreement as required by the F&E Contracts Manual. We noted twelve Std 213 Agreements without an accompanying Std 215 Agreement Summary.

e. The Fair did not prepare a written justification explaining why multi-year contracts were in the best interest of the Fair. The Fair had five multi-year contracts on file. According to the contract manual, if a contract is for more than one year or contains options to renew which if exercised would make the contract multi-year, a written justification explaining why multi-year contracts are in the best interest of the DAA must be included in the contract file and in the contract package if the contract requires F&E approval.

f. The Fair did not submit quarterly contract reports listing all standard and rental agreements processed during the quarter regardless of dollar amount or terms of the contract to F&E as required by the F&E Contracts Manual.

Recommendations

4. *The Fair should follow the F&E Contracts Manual and obtain and document bids for all contracts over $5,000 that are not otherwise exempt from the bidding process.*

5. *The Fair should ensure that a contract exists for any business/individual who receives an IRS Form 1099-MISC from the Fair for services rendered.*

6. *The Fair should comply with the F&E Contracts Manual by ensuring that all contracts over $75,000 are submitted to F&E within sufficient lead time for approval.*

7. *The Fair should comply with the F&E Contracts Manual by ensuring that a Std 215 Agreement Summary is prepared for each Std 213 Agreement.*

8. The Fair should ensure that a written justification explaining why multi-year contracts are in the best interest of the Fair is prepared for all multi-year contracts.

SPONSORSHIP REVENUE

An examination of sponsorship agreements revealed the following exceptions:

a. The Fair has no Board-established procedures for entering into sponsorship agreements. According to the F&E Contracts Manual, DAAs should have Board-established procedures for entering into sponsorship agreements. This includes procedures for securing sponsorships and sponsorship coordinators and must be approved by the Board.

b. The Fair had one sponsorship agreement with terms exceeding $100,000 and four with terms greater than two years that were not forwarded to F&E for approval as required by the F&E Contracts Manual. As a result, the Fair entered into the agreement prior to notification of F&E review.

c. The Fair did not prepare a brief description in memo form why it is in the best interest of the DAA and the State to enter into the proposed sponsorship agreement with terms in excess of $100,000 and greater than two years. This form is to be submitted to F&E for review to determine whether or not the terms are in the best interest of the DAA and the State.

Recommendations

9. The Fair should establish Board approved procedures for entering into sponsorship agreements.

10. The Fair should submit to F&E for approval, when required, all proposed sponsorship agreements prior to entering into the agreement.

11. The Fair should prepare, and submit to F&E for review, a brief description in memo form of any proposed sponsorship agreement, when required, prior to entering into the agreement.

OPPORTUNITY PURCHASES

The Fair made opportunity purchases during 2007; however, the Fair did not document that opportunity purchases meet or beat the State price. Opportunity purchases allow the DAA to purchase commodities locally at a price equivalent to or less than that available through the State purchasing program. To claim an opportunity purchase, the Fair must demonstrate and provide copies of actual price information or exemption justification when necessary. Merely stating the local price was equivalent to or less than that available through the State purchasing program does not sufficiently meet the documentation criteria. This was a prior year finding.

Recommendation

12. *The Fair should follow approved guidelines when making and claiming an opportunity purchase by attaching all supporting documentation and bids demonstrating how the opportunity purchase meet or beat the State price.*

TEMPORARY EMPLOYEES

The Fair allowed four temporary employees to work in excess of the 119-day limitation within a calendar year. According to the APM, "by law temporary employees may not work more than 119 days in a calendar year." The APM further cites Article VII Sec. 4(1) of the Constitution of the State of California as its basis for this policy. We noted these employees worked between 123 and 143 days in 2007. This is a prior audit finding.

Recommendation

13. *The Fair should comply with the APM and State Constitution limitation by ensuring temporary employees do not work in excess of the 119-day limitation.*

COMPENSATED LEAVE LIABILITY

The Fair allowed one permanent employee to carry over an annual leave balance in excess of the maximum amount allowed. According to the Department of Personnel Administration (DPA) and the Accounting Procedures Manual (APM), the maximum number of accumulated annual leave hours allowed to carry over to the next year is 640 hours. The employee had a balance of 897 hours at year-end 2007, which is 257 hours over the amount allowed to carry over. Allowing an employee to carry over excessive leave balances increases the Fair's liability should the employee leave State service. This was a prior year finding.

Recommendation

14. *The Fair should ensure that permanent employees do not maintain accrued leave hours in excess of the allowed maximum. The Fair should encourage the employee with the excess balance to take time off, thereby reducing their accumulated leave balance.*

NON-REPORTABLE CONDITIONS

SERVICE AGREEMENTS

An examination of service agreements revealed the following exceptions:

a. The Fair did not always prepare a Standard 204, Payee Data Record, for businesses/individuals receiving payment from the State of California (DAAs). This form is used in lieu of the IRS W-9 and should be on file for taxpayer ID purposes. In addition, there was no evidence of federal backup withholdings. If no Standard 204 is prepared or accurately completed, federal backup withholding is required to be withheld.

b. The Fair did not use the proper form for the expenses related to services. Based on our review, we noted four instances that the Fair incorrectly used a purchase order (PO) instead of standard agreement for landscaping improvements, two tree services, and catering services. According to the F&E Purchasing Manual Section XI, Service and Rental Transactions, "transactions with minimal or no liability exposure can be completed on a purchase order." Moreover, under no circumstances should a PO be used for catering services. Based on our review, we have determined that services do not have a minimal liability exposure, thus the standard agreement form 210 or 213 should be used regardless of the amount of expense incurred. Since the Fair did not use the proper form, this could lead to potential circumvention of state rules.

Recommendations

The Fair should ensure that a Std 204, Payee Data Record form is prepared for any business/individual receiving payment from the State of California (DAA's). If no Std 204 is prepared or accurately completed, federal backup withholding is required to be withheld.

The Fair should comply with state rules and complete the necessary Standard Form 213 or 210 for service contracts, regardless of the amount.

FRIENDS OF THE FAIR

Our office noted the Fair had no contract establishing a rental agreement between the Fair and Friends of the Fair, Inc. (an independent California non-profit organization), for the operation of a concession booth during fairtime. Since the Fair and Friends of the Fair are separate entities, each entity should have a written agreement detailing the services to be provided and the specific terms of the financial agreement between the parties.

Recommendation

The Fair should ensure they enter into a concessions agreement with the independent non-profit agency, Friends of the Fair, outlining the specific terms and agreements *between the organizations. In the future, the Fair should ensure that any financial transactions between the Fair and the independent non-profit agency, Friends of the Fair, are treated in a similar manner as would any transactions between the Fair and another third party entity.*

FEDERAL LABOR STANDARD ACT (FLSA)

The Fair did not perform the FLSA calculation correctly. According to the Accounting Procedures Manual, fairs are required to report in the FLSA Recreational Exemption worksheet gross receipts in the month it was actually received as opposed to when it was earned. The Fair incorrectly used reported operating revenue from the monthly statement of operations as the monthly figure on the FLSA worksheet which may include revenue received in prior months that was incorrectly recorded as guaranteed deposits. Based on the method used by the Fair, without further review, we are unable to verify accuracy of the FLSA calculation and whether it actually meets the percent limitation.

Recommendation

The Fair should adjust their method for calculating the monthly gross receipts when preparing the FLSA Recreational Exemption worksheet to ensure that monthly gross receipts are accurate.

TRAVEL EXPENSE CLAIMS

The Fair did not properly process business meal expenditures for fair staff and board members while on travel status. Currently, the Fair pays for travel expenditures incurred by fair staff and board members with a Fair credit card. Travel expenditures (including hotel, meals, and mileage) while on travel status are to be recorded and reimbursed on travel expense claims (TEC) Standard Form 262, as required by Department of Personnel Administration (DPA) Rule 599.638, by each individual benefiting from the expense. This will ensure proper TEC documentation and that the maximum per diem limitations established by the Department of Personnel Administration (DPA) are not exceeded. This was a prior year finding.

Recommendation

The Fair should ensure that Travel Expense Claim forms are always prepared to document that business meal expenditures are properly processed through individual travel expense claims and not combined and paid for with the Fair credit card, as required by DPA guidelines.

INDEPENDENT CONTRACTORS

The Fair did not prepare and submit the DE 542, Report of Independent Contractors, to the EDD as required. Information contained on the form is used to assist the state and county agencies in locating parents who are delinquent in their child support obligations. This report is to be submitted to the EDD within 20 days of paying/contracting for $600 or more in services received by the DAA.

Recommendation

The Fair should ensure that the DE 542, Report of Independent Contractors, is prepared and submitted to the EDD within 20 days of paying/contracting for $600 or more in services.

GUARANTEED DEPOSIT

The Fair incorrectly used the guaranteed deposit account as a deferred income account during the year. Although Account #241, Guaranteed Deposit, and Account #228, Deferred Income, maintain credit (liability) balances, guaranteed deposits represent monies due back to renters whereas deferred income represents a future service, not cash, owed by the Fair to the renter for the advance receipt of monies. This was a prior year finding.

Recommendation

The Fair should comply with generally accepted accounting principles by correctly recording monies received in advance for future events as deferred income and not guaranteed deposits. After the conclusion of the event, the amounts should be recognized as revenue.

CASH RECEIPTS

Our office noted the Fair increased its exposure to loss by not always depositing cash receipts on a timely basis. The F&E APM Section I, 2.331, Deposit of Cash Receipt, states that the Fair is to make bank deposits the next business day whenever cash exceeds $500, or cash and checks in the aggregate exceed $5,000. Moreover, no collection may remain undeposited for more than fifteen working days.

Recommendation

The Fair should ensure it deposits cash receipts within the timeframes specified in the APM. The timely deposit of cash receipts helps minimize the risk of loss or other misuses of the cash or cash equivalents collected.

UNRECORDED LIABILITIES

The Fair did not accrue liabilities of $13,751 at year-end relating to the 2007 expenses that were subsequently paid in 2008. As a result, Account #212, Accounts Payable, and the corresponding expense account were understated. The accrual basis of accounting requires the recognition of expenses within the period incurred. If expenses have been incurred but not yet invoiced, an effort should be made to reasonably estimate and accrue the liability for the amount owed. This should be done prior to closing the accounting records and preparing the annual Statement of Operations (STOP).

Recommendation

Accounts payable at year-end should include all known payables, including estimates of telephone, gas, and electric bills. Such estimates should be made even though billings have not yet been received.

The Fair should record a liability for all unpaid obligations at year-end. This will ensure the fair presentation of the financial statements.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

Santa Maria Fairpark
Home of the Santa Barbara County Fair

March 20, 2009

Mr. Ron Shackelford
Chief, Audit Office
California Department of Food & Agriculture
1220 'N' Street, Room 344
Sacramento, CA 95814

Re: Management Report - 08-037
Year Ending December 31, 2007

Dear Mr. Shackelford:

Below is our response to the above Audit report conducted on September 15, 2008.

Inappropriate Expenditures

Comments noted, and will follow where appropriate the recommendations made.

We wish to note that the expenses for the catered event for our State and Board Members is for appreciation of all they do and give over and above their job duties, and responsibilities. The cost for their guest or spouse was paid by them, and not the State.

Standard Agreements

Personal Service Contracts – Comments have been noted, and will follow recommendations where appropriate. Please note that services for Marketing Media Advertisement include the actual purchasing of Radio, TV, and Print Ads from local media outlets that are not a biddable service, and we have no control over the cost.

Standard agreements for businesses/individuals received an IRS Form 1099-MISC comments have been noted and will follow requirements.

Contracts over $75,000 requiring F& E approval – Comments have been noted and future contracts will be submitted to F&E for approval. Please note that these were multi year contracts and no one year contract was over $75,000, also note that this was the fifth year of each of these multi year contracts, and the first notification that we had not submitted them as required.

Standard 215 Agreement Summary - Comments noted, preparation of Standard 215 are now in effect.

Multi Year Contract Justification - Comments noted, and will follow F& E's required procedures.

Quarterly Contract Reports - Comments have been noted and quarterly reports will be submitted to F& E.

Sponsorship Revenue

Sponsorship Policy & Procedures has been established, approved by the Board and now in effect.

We will follow the recommendations requiring F & E approval, but will not lose a potential sponsorship due to their delay in responding, but every attempt will be made to communicate with them.

Opportunity Purchase

We make every attempt to comply with DGS Purchasing Procedures. With limited staff it takes time to do price comparisons. In our purchasing we always attempt to purchase at the lowest possible price. We also pay a fee to DGS based on our purchases when we file our Delegated Purchasing Report.

Temporary Employees

Because of the limited labor market, it is difficult to find 119 day employees on a continual basis. We make every attempt to comply with the 119 day limit, but with two major festivals a year (Strawberry Festival and County Fair) plus interim events every weekend, we need employees to assist our operation.

So noted, Fair will monitor on a monthly basis those employees who are nearing the 1,000 hours limit in a fiscal year.

Compensated Leave Liability

The employee noted in this Audit is the CEO. I am attempting to reduce the hours as time will allow, but my primary responsibility is to manage and maintain a facility that is well run, and fiscally sound.

Our full CTO Report and State Policy was reviewed with the Board of Directors at the meeting on February 26, 2009.

This should not be classified as a P/Y finding as this has not been abused.

Sincerely,

Dennis K. Pearson
Chief Executive Officer

[illegible]
Board President

DKP/tz

Cc: Board of Directors

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 37th DAA, Santa Maria Fairpark, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between September 15, 2008 and September 26, 2008. My staff met with management on September 26, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

For

Ron Shackelford, CPA
Chief, Audit Office

September 26, 2008

REPORT DISTRIBUTION

Number	Recipient
1	President, 37th DAA Board of Directors
1	Chief Executive Officer, 37th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office